Office of Internal Audit
Monthly Internal Control Tip

Develop a Risk Response Strategy to address the risk(s) within your respective area(s) that could adversely affect the achievement of organizational, departmental, and /or agency goals.

Use the Risk Profile described in the June Monthly Internal Control Tip and the July Monthly Internal Control Tip to determine the risks that will be included in the Risk Response Strategy. A Risk Response Strategy is the approach taken to respond to the risk identified within the Risk Profile. The Risk Response Strategy will include at least one of the following methods for dealing with risk: Avoidance, Transfer/Sharing, Acceptance, Capitalize, or Mitigation. Each of these methods is detailed below.

Risk Avoidance. This strategy is used to make the risk cease to be a possibility. Avoidance is a little different from the other strategies. In risk avoidance, we completely eliminate the possibility of the risk. Risk avoidance involves one or more of the following: (1) taking steps to remove the process causing the risk, (2) engage in an alternative process, or (3) otherwise end a specific risk exposure.

Transfer/ Share. The transfer strategy in managing risk is to give responsibility for the risk to a third party. The risk does not go away; the responsibility and some or all of the impact of the risk is shared with the third party. Probably the most common method of transfer is to buy insurance. With insurance you give a relatively small amount of money to an insurance company. This amount of money, called a premium, is usually much smaller than the cost of the risk. If the risk happens, the insurance company pays to have the risk resolved. If the risk does not take place, the insurance company keeps the premium.

Acceptance. Acceptance of a risk means that the severity of the risk is low enough that we will do nothing about the risk unless it occurs. Using the acceptance strategy means that the risk has been assessed has having low impact and low to moderate likelihood. Once the risk occurs, we will fix the problem and move on. There are two kinds of acceptance, active and passive. Acceptance is active when a risk is identified as being acceptable but we decide to make a plan for what to do when and if the risk occurs. Acceptance is passive when nothing at all is done to plan for the risk occurrence.

Mitigation. Mitigation is a strategy where internal controls are put in place for unacceptable risks to reduce either their probability or their impact to a point where their impact and/ or likelihood falls to an acceptable level. The purpose of such strategy is to lessen or reduce the adverse impacts of the known or perceived risks inherent in a particular process, even before any damage or disaster takes place. Mitigation is the most commonly used strategy.

Capitalize. In the event that the presence of risk creates an opportunity for the organization, department, or agency, it is important to recognize and evaluate the opportunity. When possible, the organization should seek to capitalize on such opportunities.

Brought to you by the Office of Internal Audit